

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 TRSE-00 AID-05 AGRE-00 OES-07 IGA-02
NEA-10 CIAE-00 INR-07 NSAE-00 EB-07 COME-00 OMB-01
EPG-02 SP-02 L-03 DHA-02 /063 W
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FM AMEMBASSY QUITO
TO SECSTATE WASHDC 4979

C O N F I D E N T I A L QUITO 4480

FOR ARA/AND/E

E.O. 11652: GDS
TAGS: EAID, EC
SUBJ: UPCOMING IDB LOAN TO ECUADOR

REF: STATE 154974

1. SUMMARY: EMBASSY BELIEVES THAT US. RESTRICTION
ON ECUADOR'S ACCESS TO FSO LOANS IN IDB
IS BASED ON QUESTIONABLE ECONOMIC
GROUNDS, IS PREJUDICIAL TO US. INTERESTS,
AND SHOULD BE ELIMINATED FORTHWITH. END SUMMARY.

2. EMBASSY BELIEVES THE USG SHOULD TREAT ECUADOR'S
APPLICATIONS FOR FSO LOANS ON THE BASIS OF THE SAME
OBJECTIVELY PROJECT CRITERIA AS ARE APPLIED TO
APPLICATIONS BY OTHER OF THE POOREST COUNTRIES.
THE PUBLICLY AVOWED REASON FOR THE RESTRICTION IS
THAT ECUADOR, AS AN OIL-EXPORTER, HAS A FINANCIAL
RESOURCE NOT AVAILABLE TO OTHER BENEFICIARIES OF
IDB LOANS, A RESOURCE THAT IS ENABLING ECUADOR TO
RUN A PERSISTENT SURPLUS IN ITS BALANCE OF PAYMENTS.
THIS ARGUMENT DOES NOT STAND UP UNDER ANALYSIS.

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3. ECUADOR'S INCOME FROM OIL EXPORTS BARELY BEGINS
TO MEET ITS NEEDS FOR DEVELOPMENTAL CAPITAL. THIS IS
STILL A COUNTRY WITHOUT A HIGHWAY CONNECTING ITS TWO
PRINCIPAL CITIES (THE COST OF WHICH WOULD BE ROUGHLY
\$1 BILLION FOR THE FEW HUNDRED MILES), WITHOUT POTABLE
WATER SUPPLIES IN MUCH OF ITS AREA, AND PLAGUED BY RE-
CURRENT WATER SHORTAGES IN ALMOST ALL THE INHABITED

PORTIONS; WITHOUT ELECTRICITY SUPPLIES IN MANY POPULATED AREAS, AND SO LACKING IN ELECTRIC POWER FOR ITS URBAN CENTERS THAT THESE ARE PERIODICALLY SUBJECTED TO SCHEDULED RATIONING AND UNSCHEDULED BLACKOUTS; WITHOUT ADEQUATE MEDICAL FACILITIES ANYWHERE WITHIN ITS BOUNDARIES, WITHOUT NUMEROUS OTHER KINDS OF BASIC PHYSICAL AND SOCIAL INFRASTRUCTURE; AND, WITHAL, WITH ONE OF THE HIGHEST RATES OF POPULATION GROWTH IN THE WORLD. SINCE THE START OF ECUADOR'S OIL EXPORTS IN 1972, THE COUNTRY HAS MOVED OUT OF ITS FORMERLY ENTRENCHED POSITION AS THE 4TH POOREST IDB BENEFICIARY--TO THE POSITION OF 5TH POOREST. ECUADOR IS STILL CLASSIFIED BY THE IDB AS A "CLASS D" COUNTRY (I.E., LEAST DEVELOPED), AND WILL BE MIRED IN THAT CATEGORY FOR MANY YEARS TO COME EVEN IF OIL EXPORT EARNINGS EXCEED CURRENT LEVELS AND PROJECTIONS.

4. THE CURRENTLY STRONG SURPLUS IN ECUADOR'S BALANCE OF PAYMENTS IS BY NO MEANS A HEALTHY SIGN; ON THE CONTRARY, IT REFLECTS THE INADEQUACY OF PUBLIC INVESTMENT IN CONSTRUCTION OF SORELY-NEEDED INFRASTRUCTURE AND OTHER DEVELOPMENTAL WORKS. IF ECUADOR WERE CURRENTLY EMBARKED ON THE REQUIRED DEVELOPMENTAL PROJECTS, IT WOULD BE RUNNING A PAYMENTS DEFICIT EVEN WITH ITS OIL EXPORT EARNINGS. THE GOE MAY PERHAPS BE FAULTED FOR NOT BEING AS ACTIVE AS IT COULD BE IN FORMULATING AND IMPLEMENTING DEVELOPMENTAL PROJECTS; BUT ITS HESITANCY IS AT LEAST IN CONFIDENTIAL

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PART ATTRIBUTABLE TO THE REALIZATIONS THAT ITS BALANCE-OF-PAYMENTS SURPLUS IS TENUOUS. (CERTAINLY, RESTRICTING ITS ACCESS TO CONCESSIONAL LOANS DOES NOTHING TO ENCOURAGE THE GOE TO BE MORE AGGRESSIVE IN ITS PUBLIC INVESTMENT POLICY.) REGARDING THE LATTER POINT, IT SHOULD BE REALIZED THAT MUCH OF THE SURPLUS IS ATTRIBUTABLE NOT TO EXPORT EARNINGS BUT RATHER TO THE SEVERE IMPORT RESTRAINTS THAT HAVE BEEN IN EFFECT SINCE 1975 WHICH IN TURN WERE A REACTION TO DEFICITS IN 1974-75 WHEN EXPANSIONIST ECONOMIC POLICIES LED TO A MASSIVE UPSURGE IN IMPORTS. EVEN WITH THOSE RESTRAINTS, IMPORT PAYMENTS HAVE BEEN RISING VERY STRONGLY SINCE LATE 1976--THROUGH MAY OF 1977 (LATEST DATA) THEY WERE UP MORE THAN 50 PERCENT OVER THE SAME PERIOD OF 1976.

5. THE RESTRICTION IS THUS BASED ON EXCEEDINGLY SHAKY ECONOMIC GROUNDS. IT ALSO IS OBJECTIONABLE ON POLITICAL GROUNDS, FIRST OF ALL BECAUSE ITS IS GENERALLY VIEWED--NOT ONLY IN ECUADOR--AS DISCRIMINATORY: MOST OF THE IDB BENEFICIARY COUNTRIES THAT HAVE HIGHER PER-CAPITA GNP'S RECEIVE FSO LOANS WITHOUT RESTRICTION. SOME OF THEM HAVE PER CAPITA GNP'S MORE THAN TWICE THAT OF ECUADOR. IT IS ALSO GENERALLY VIEWED--NOT ONLY IN ECUADOR--AS

PUNITIVE AND/OR COERCIVE, A MEASURE INSTITUTED DURING
A FIT OF USG PIQUE OVER ECUADOR'S ENTRY INTO OPEC AND
SEIZURES OF US. FISHING-BOATS IN ECUADOREAN-CLAIMED WATERS.
THE USG EVIDENTLY HAS COME TO VIEW ECUADOR'S MEMBERSHIP
IN OPEC AS TOLERABLE, AND IN FACT AS POTENTIALLY
ADVANTAGEOUS TO THE US(IN THAT ECUADOR--SO LONG AS IT
REMAINS WELL DISPOSED TOWARDS THE US-CAN NOW BE EXPECTED
TO BE AMONG THE MODERATES IN OPEC. AS FOR THE FISHING ISSUE,
WE HAVE GONE THROUGH TWO CONSECUTIVE FISHINGSEASONS
WITHOUT A SHIP SEIZURE, PARTLY AS A RESULT OF INTENSE DIPLOMATIC
EFFORTS ON BOTH SIDES.

6. REMOVAL OF THE RESTRICTION AT THIS TIME WOULD
HAVE THE ADDITIONAL BENEFIT OF DEMONSTRATING SUPPORT
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FOR ONE OF THE FEW IDB BENEFICIARIES WHOSE RECORD ON
HUMAN RIGHTS IS ACKNOWLEDGED BY THE
USG TO BE PRAISEWORTHY.
BLOOMFIELD

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NNN

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